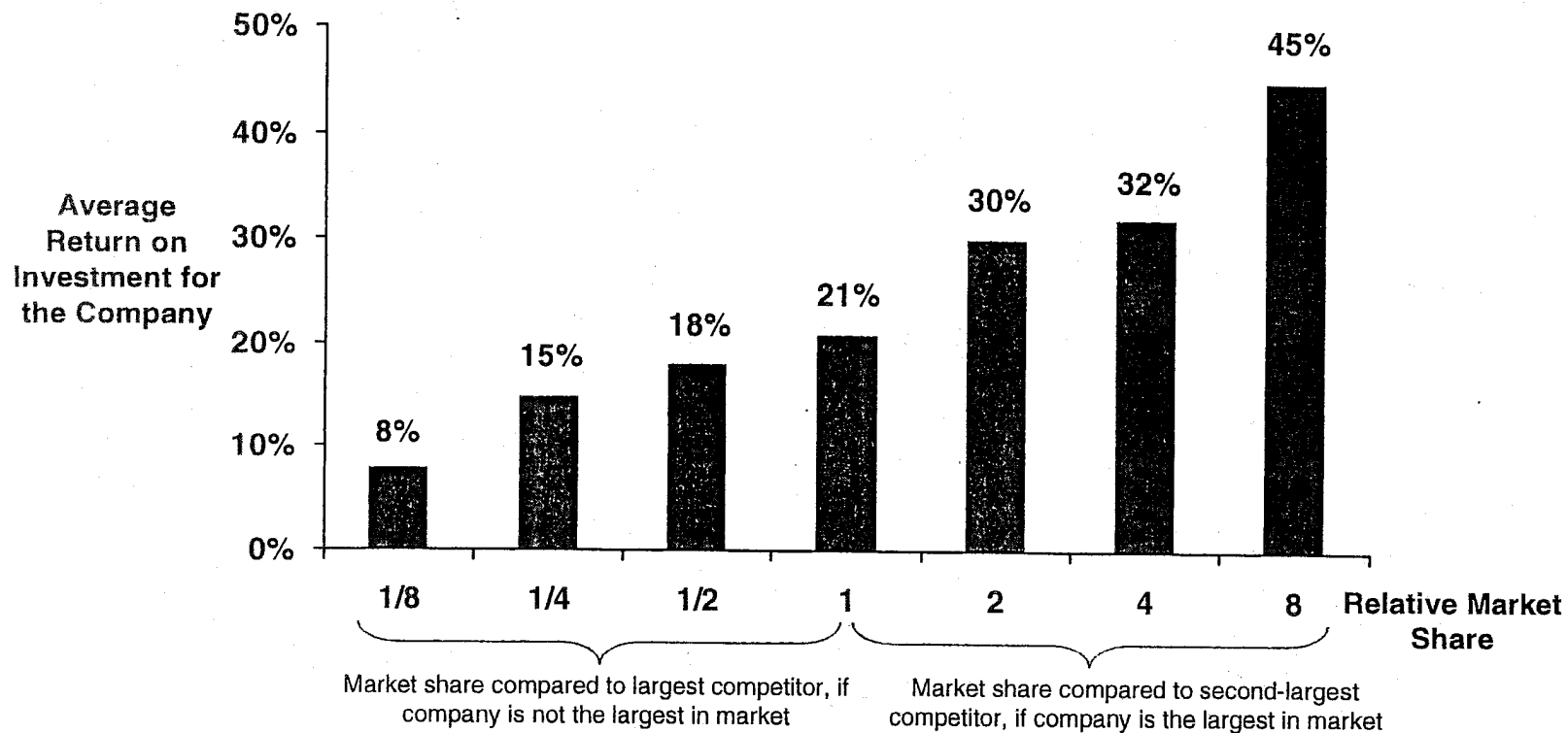


## Cross-industry evidence also suggests that high relative market share drives superior financial returns.

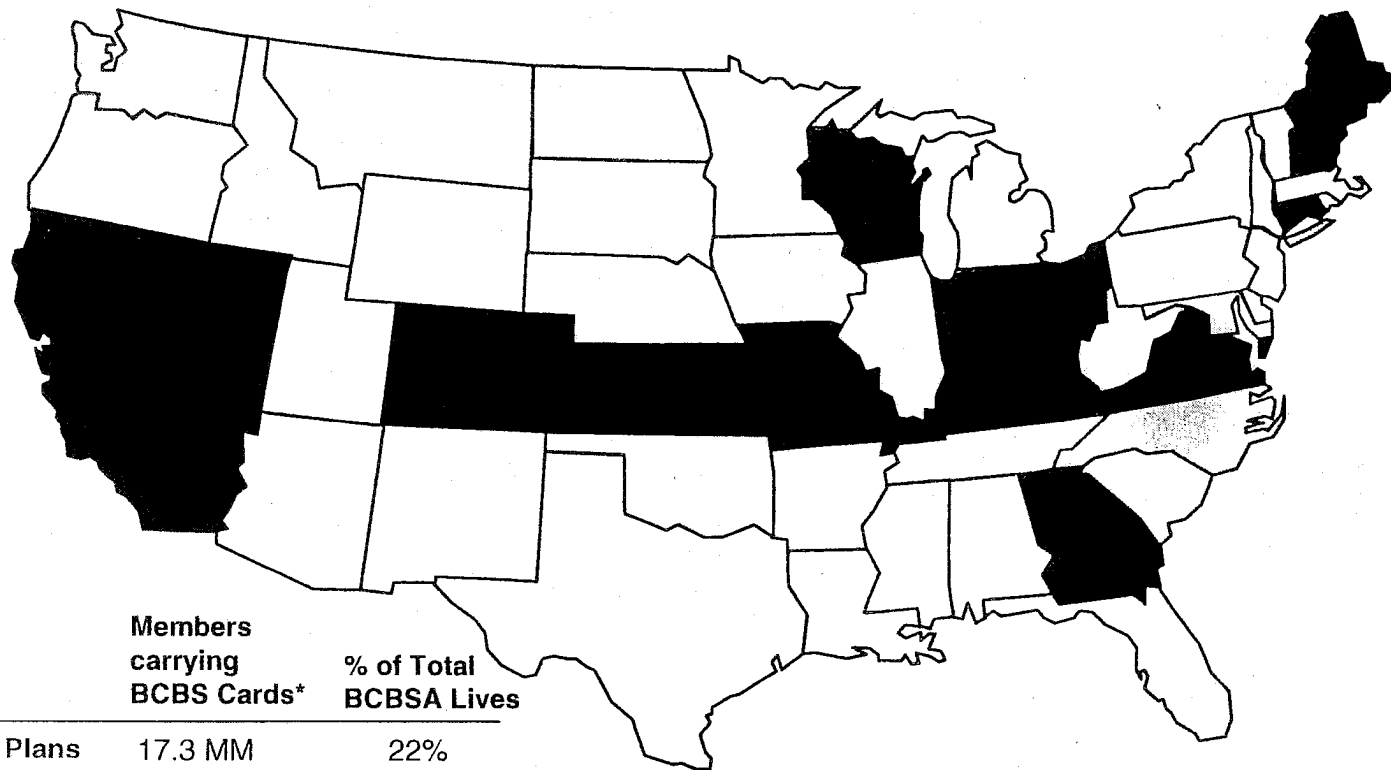
### Return on Investment versus Relative Market Share

(relative market share = market share of the company divided by the market of the largest or next largest company in market)



Source: Accenture Analysis, PIMS (Profit Impact of Market Strategies), based on 5000 strategic business units across a variety of industries  
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**There have been a wave of for-profit conversions, primarily among BCBS plans, with more contemplated.**



	Members carrying BCBS Cards*	% of Total BCBSA Lives
For-Profit Plans	17.3 MM	22%
Considering	8.3 MM	11%
<b>Total</b>	<b>25.6 MM</b>	<b>33%</b>

■ For-Profit  
Considering or pursuing conversion

*\*Blue Branded Members only.*

Source: Health Plan public information; BCBSA Enrollment Data as of 6/30/01

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OCC 002105

**If CareFirst's competitors aggressively pursue the benefits associated with increased scale, they could put themselves on a "virtuous cycle" where increased scale drives the ability to reduce costs and invest to improve sales.**

## A "Virtuous Cycle" for Health Plans

### Gain Scale

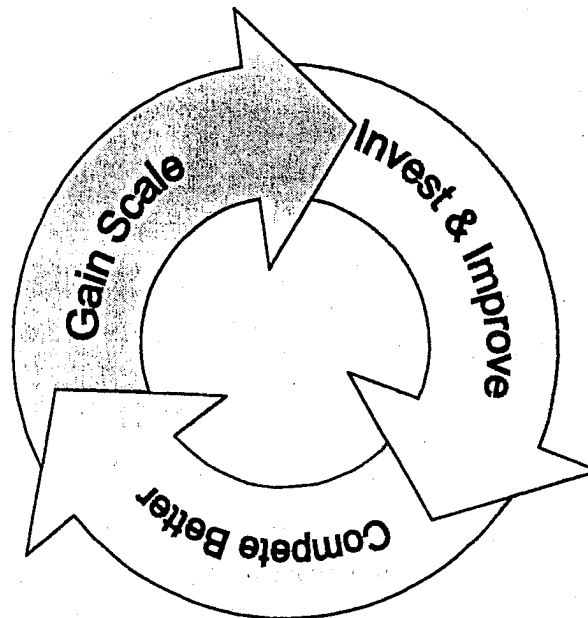
Increase member base

- Increase revenues
- Position health plan for increased investment

### Compete Better

Use advantages to enhance competitive position, e.g.:

- Reduced rates, or lower rate increases, due to lower operating costs
- Improved and/or differentiated services



### Invest and Improve

Exploit the advantages available through increased scale

- Reduce operating costs by aggressively pursuing economies of scale – e.g., integrating core systems and operations
- Invest more in innovative and/or differentiating services and products – e.g., eCommerce, consumer focused initiatives, improved operations



**Health Plans Being Squeezed**

**Health Plans Expand & Access Equity**

**National Trends Playing Out in Mid-Atlantic Region**

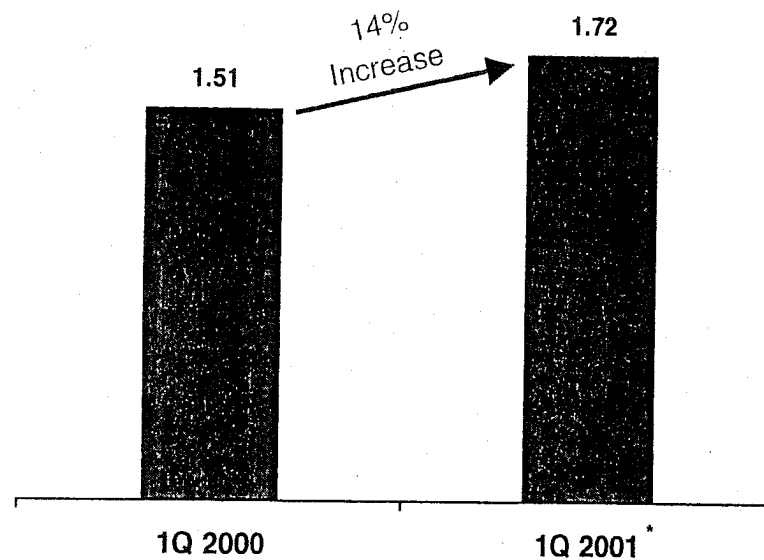
**CareFirst Must Gain Substantial Scale & Access Capital**

**Timing Appears Favorable for CareFirst to Act**

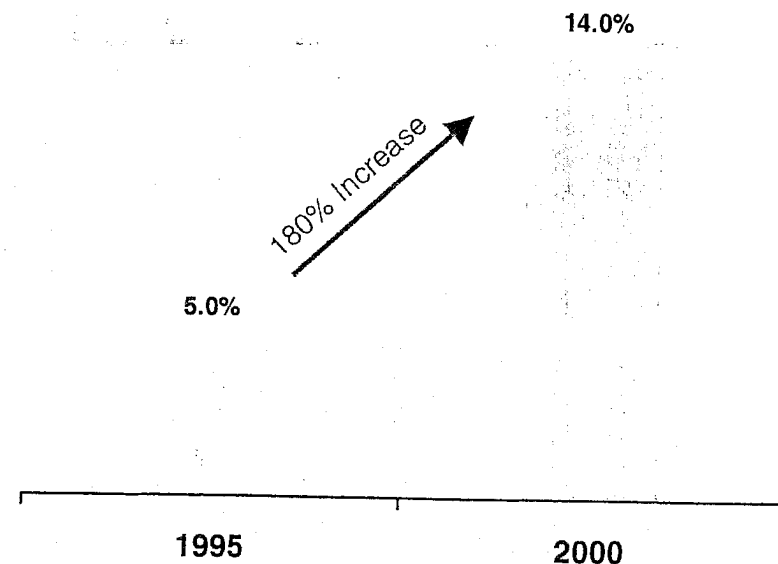
**CareFirst's Constituents Likely to Benefit**

**Coventry Health Care purchased all or parts of 11 health plans in a three-year period; Aetna acquired U.S Healthcare, NYLCare and Prudential Healthcare.**

**Coventry's National Membership Growth**  
(Membership in Millions)



**Aetna's U.S. Healthcare Market Share**  
(Mid-Atlantic Region)



\*After 1Q 2001, Coventry acquired 160,00 additional members through purchasing Blue Ridge Health Alliance in Central Virginia (including QualChoice HMO)

Source: CareFirst Data; Accenture Analysis

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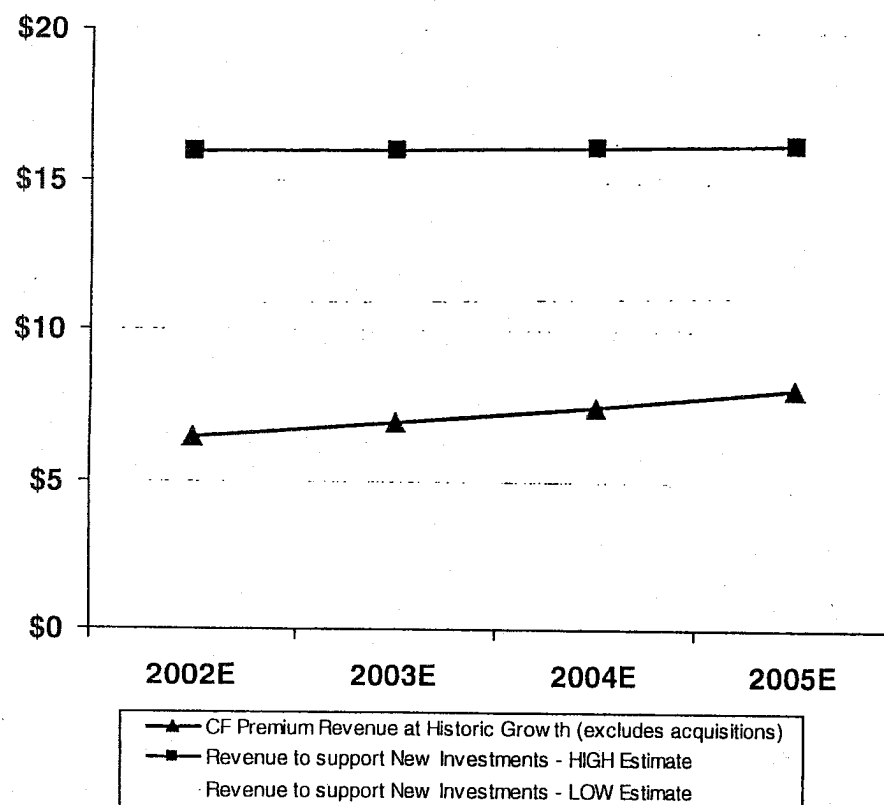
**CareFirst's Constituents Likely to Benefit**

OCC 002109

**Maintaining its current ratio of “discretionary spend” as a portion of revenue to support investments, CareFirst would need to have \$11 - \$16 billion in revenues.**

### CareFirst Revenue Required to Support Investments

(\$ in Billions, 2002E – 2005E)



2005E  
Revenue  
Shortfall:  
\$8.1B

#### Key Assumptions:

- Investments of \$420-\$640 required
- Investments required over 3-5 year period
- 20% of existing discretionary spending still required

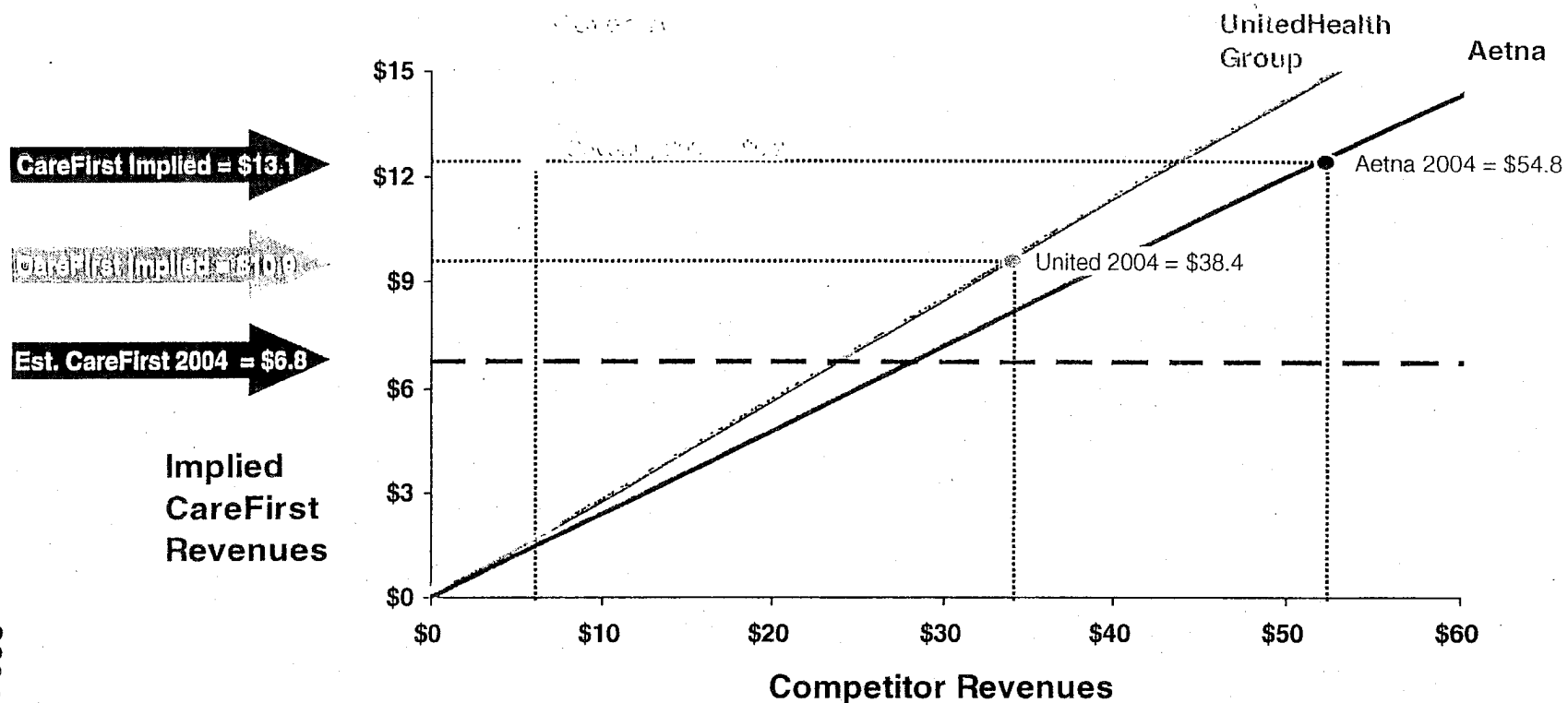
Source: CareFirst data; Accenture Analysis

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**To maintain scale relative to competition, CareFirst would need between \$11 and \$13B in revenue by 2004; \$4-6B more than its current growth rate would provide.**

# **CareFirst "Implied" Revenue to Maintain Size Relative to Competitors, 2004** (\$ in Billions)



Source: CareFirst data, SEC filings, Accenture analysis

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**Combining the results from the two estimating methods provides a CareFirst target revenue range of range of \$11 - \$16 billion over the next 3-5 years.**

**Estimated Advantageous Target Size Range for CareFirst in 3-5 Years**  
(measured in billions of revenue dollars)

<b>Estimation Method</b>	<b>Low</b>	<b>High</b>
Investment Support Level	\$11.2	\$16.2
Scale Relative to Competitors	\$10.9	\$13.1
<b>Estimated Revenue Target (in billions)</b>	<b>\$11</b>	<b>\$16</b>

Source: CareFirst data, SEC filings, Accenture analysis

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